

**FRIENDSHIP TOWNSHIP
EMMET COUNTY, MICHIGAN**

Financial Statements
For the Year Ended
March 31, 2008

Prepared By:

Richard E. Mahlmeister, C.P.A., P.C.
580 South Nicolet, P.O.Box 996
Mackinaw City, MI 49701

Auditing Procedures Report V1.04

[Reset Form](#)[Email](#)

Issued under Public Act 2 of 1968, as amended .

Unit Name	Friendship Township	County	EMMET	Type	TOWNSHIP	MuniCode	24-1-060
Opinion Date-Use Calendar	Jul 21, 2008	Audit Submitted-Use Calendar	Aug 26, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 172,199.00
General Fund Expenditure:	\$ 145,973.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 159,787.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Richard	Last Name	Mahlmeister	Ten Digit License Number	1101017351				
CPA Street Address	P.O. Box 996	City	Mackinaw City	State	MI	Zip Code	49701	Telephone	+1 (231) 436-5223
CPA Firm Name	Richard E. Mahlmeister, CPA	Unit's Street Address	3018 Beacon Hill Ln.	City	Harbor Springs	LU Zip	49740		

FRIENDSHIP TOWNSHIP

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RICHARD E. MAHLMEISTER



CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:

American Institute of Certified Public Accountants

Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

July 21, 2008

Township Board
Friendship Township
Emmet County, Michigan

I have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and each major fund of ***Friendship Township, Emmet County, Michigan***, as of and for the year ended March 31, 2008, which collectively comprise ***Friendship Township's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of ***Friendship Township's*** management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit and each major fund of ***Friendship Township, Emmet County, Michigan***, as of March 31, 2008, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 6 and 24 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, CPA, PC

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights

Net assets at March 31, 2008 totaled \$747,402, representing an increase of \$50,462 from the previous fiscal year.

Governmental Fund Highlights

The governmental fund activities of the Township reported combined ending fund balances of \$407,215, which represents an increase of \$50,765 from the previous fiscal year.

Capital Assets and Long-term Debt

Friendship Township has no debt and capital asset activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year March 31, 2008.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities are reported as governmental activities. These would include the operations recorded in the General Fund, Road Fund, Recreation Fund and Capital Outlay Fund. Middle Village Park is presented, but is considered a component unit, not part of the primary government.

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position:

	Friendship Township	
	Net Assets	
	March 31,	
	GOVERNMENTAL	
	ACTIVITIES	
Assets:	2008	2007
Current assets	\$408,767	\$358,735
Capital assets (net)	340,187	340,490
Total assets	<u>748,954</u>	<u>699,225</u>
Liabilities:		
Current liabilities	<u>1,552</u>	<u>1,552</u>
Net assets:		
Invested in capital assets	340,187	340,490
Unrestricted	<u>407,215</u>	<u>356,450</u>
Total net assets	<u><u>\$747,402</u></u>	<u><u>\$696,940</u></u>

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The most significant portion of the Township's Net Assets is the investment in capital assets (e.g. land, buildings and equipment), less any related debt, of which we have none, that is outstanding that the Township used to acquire or construct the asset. The Township has \$407,215 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Assets of the Township:

Friendship Township		
Change in Net Assets		
March 31,		
	GOVERNMENTAL	
	ACTIVITIES	
	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$2,310	\$1,194
General revenues:		
Property taxes	192,531	178,527
State-shared revenues	64,962	65,211
Interest income	11,144	13,448
Other	2,590	5,726
Total revenues	<u>273,537</u>	<u>264,106</u>
Expenses:		
Legislative	8,000	9,192
General government	64,832	65,317
Public safety	2,603	1,257
Public works	131,037	188,386
Recreation and culture	2,625	2,366
Other	8,912	10,518
Unallocated depreciation	5,066	5,136
Total expenses	<u>223,075</u>	<u>282,172</u>
Net assets:		
Increase (decrease) in net assets	50,462	(18,066)
Beginning net assets	<u>696,940</u>	<u>715,006</u>
Ending net assets	<u>\$747,402</u>	<u>\$696,940</u>

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

The Township is able to report positive changes to its net asset balances. During the fiscal year, net assets increased by \$50,462.

Revenue increases, when compared to last fiscal year, totaling \$9,431 can be attributed to increased tax revenue due to rising taxable property values. An additional mill approved by the voters for four years continues to be collected and its use has been designated by the Township Board for road repairs.

Overall expenses have remained stable, decreasing by \$59,097. This decrease is generally attributable to decreased public expenditures for road repairs.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Township Board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains four individual governmental funds; General Fund, Road Fund, Recreation Fund and Capital Outlay Fund, which we consider major funds. The Township funds are financed primarily by both property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Fund Activities

The Township's fund activities remained consistent. The Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, and tax collection. The General Fund increased its fund balance by \$26,226, bringing the fund balance to \$159,787, the Road Fund increased its fund balance by \$3,923, bringing the fund balance to \$93,163, the Recreation Fund increased its fund balance by \$13,716, bringing the fund balance to \$101,805, and the Capital Outlay Fund increased its fund balance by \$6,900, bringing the fund balance to \$52,460.

Capital Asset and Debt Administration

Capital Assets

At March 31, 2008, the Township's governmental activities had \$388,193 in net capital assets (land, buildings and equipment). There was \$4,763 of new capital assets purchased during the current year.

Long-Term Debt

No new debt was incurred during the year, nor is there any other long-term debt.

BUDGETARY HIGHLIGHTS

At year-end, there were several areas of significant decreases in actual compared to budgeted expenses. First, actual costs for contracted road repairs were \$39,037 less than anticipated and we were able to utilize \$8,755 from County Road Commission allocations in place of budgeted General Fund dollars. Second, our Spring Cleanup costs were \$2,999 less than anticipated. Third, our Planning Commission spent \$9,611 less than budgeted due in great part to not needing the services of our Township attorney. And finally, we saved \$2,425 on our Township attorney budget line item.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township will be budgeting to spend up to \$350,000 for road repairs during the next four to eight years. These funds will come entirely from the approved 4-year, 1-mill tax and will be bolstered by funds from County Road Commission allocations.

The Township is studying proposals to upgrade the township hall in the areas of office space, document storage, electrical service, kitchen amenities for public and official use, internet service, etc. We anticipate relocating our fire hall further south on township property. Funds to cover these improvements, if approved, would come from our Capital Outlay Fund and our Recreation Fund. These funds have been and continue to be built up with periodic, budgeted payments from our General Fund. We are also studying the cost and layout for an addition to the township cemetery. Funding for this project would come from our Capital Outlay Fund and from a recent bequest.

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

KNOWN FACTORS AFFECTING FUTURE OPERATIONS (CONTINUED)

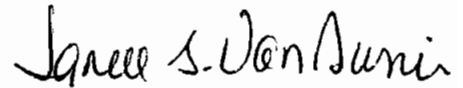
In the near-term, and aside from these projects, the Township expects financial aspects of governing to be generally the same as they were in the year ended March 31, 2008.

CONTACTING TOWNSHIP MANAGEMENT

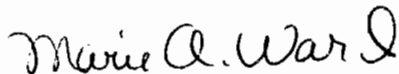
This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact any township official at 231.526.6410 (Friendship Township Clerk).



Dale S. Scott
Friendship Township Supervisor



Janell S. Van Divner
Friendship Township Clerk



Marie A. Ward
Friendship Township Treasurer

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FRIENDSHIP TOWNSHIP
STATEMENT OF NET ASSETS
MARCH 31, 2008**

	PRIMARY GOVERNMENT	COMPONENT UNIT
<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>MIDDLE VILLAGE PARK</u>
Cash and cash equivalents	\$377,817	\$5,217
Receivables:		
Property taxes	21,882	-
Due from other governmental units	9,068	-
Capital assets (Net of Accumulated Depreciation)	340,187	26,464
<u>TOTAL ASSETS</u>	<u>748,954</u>	<u>31,681</u>
<u>LIABILITIES</u>		
Accounts payable	1,552	-
<u>TOTAL LIABILITIES</u>	<u>1,552</u>	<u>-</u>
<u>NET ASSETS</u>		
Invested in capital assets	340,187	26,464
Unrestricted	407,215	5,217
<u>TOTAL NET ASSETS</u>	<u>\$747,402</u>	<u>\$31,681</u>

The accompanying notes are an integral part of these financial statements.

**FRIENDSHIP TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities			
Legislative	\$8,000	\$ -	\$ -
General government	64,832	2,310	-
Public safety	2,603	-	-
Public works	131,037	-	-
Recreation and culture	2,625	-	-
Other	8,912	-	-
Unallocated depreciation	5,066	-	-
Total governmental activities	223,075	2,310	-
General Revenues			
Property taxes			
State-shared revenues			
Unrestricted interest income			
Other			
Total general revenues			
Change in net assets			
Net assets, beginning of year			
Net assets, end of year			

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets		
	Primary Government	Component Unit Middle Village Park
Capital Grants and Contributions	TOTAL	TOTAL
\$ -	(\$8,000)	\$ -
-	(62,522)	-
-	(2,603)	-
-	(131,037)	-
-	(2,625)	(7,713)
-	(8,912)	-
-	(5,066)	(2,406)
-	(220,765)	(10,119)
	192,531	-
	64,962	-
	11,144	211
	2,590	3,250
	271,227	3,461
	50,462	(6,658)
	696,940	38,339
	\$747,402	\$31,681

FRIENDSHIP TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2008

ASSETS	GENERAL FUND	ROAD FUND	RECREATION FUND
Cash and cash equivalents	\$141,330	\$82,222	\$101,805
Taxes receivable	10,941	10,941	-
Due from other governmental units	9,068	-	-
TOTAL ASSETS	\$161,339	\$93,163	\$101,805
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$1,552	\$ -	\$ -
TOTAL LIABILITIES	1,552	-	-
FUND BALANCES			
Unreserved:			
Designated for:			
Subsequent years' expenditures	47,284	-	-
Unreserved, undesignated	112,503	93,163	101,805
TOTAL FUND BALANCES	159,787	93,163	101,805
TOTAL LIABILITIES AND FUND BALANCES	\$161,339	\$93,163	\$101,805

The accompanying notes are an integral part of these financial statements.

CAPITAL OUTLAY FUND	TOTAL GOVERNMENTAL FUNDS
\$52,460	\$377,817
-	21,882
-	9,068
\$52,460	\$408,767
\$ -	\$1,552
-	1,552
-	47,284
52,460	359,931
52,460	407,215
\$52,460	\$408,767

**FRIENDSHIP TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2008**

Reconciliation of fund balances on the balance sheets for governmental activities
to the statement of net assets

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$407,215
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: capital assets	388,193
Subtract: accumulated depreciation	<u>(48,006)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$747,402</u></u>
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The accompanying notes are an integral part of these financial statements.

FRIENDSHIP TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	GENERAL FUND	ROAD FUND	RECREATION FUND
REVENUES:			
Taxes	\$99,975	\$92,556	\$ -
State shared revenues	64,962	-	-
Charges for services	2,310	-	-
Interest	4,362	1,778	3,341
Other revenue	590	-	2,000
TOTAL REVENUES	172,199	94,334	5,341
EXPENDITURES			
Current:			
Legislative	8,000	-	-
General government	64,832	-	-
Public safety	2,603	-	-
Public works	40,626	90,411	-
Recreation and culture	1,000	-	1,625
Other functions	8,912	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	125,973	90,411	1,625
REVENUES OVER (UNDER) EXPENDITURES	46,226	3,923	3,716
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	10,000
Operating transfers (out)	(20,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(20,000)	-	10,000
NET CHANGES IN FUND BALANCES	26,226	3,923	13,716
FUND BALANCES, BEGINNING OF YEAR	133,561	89,240	88,089
FUND BALANCES, END OF YEAR	\$159,787	\$93,163	\$101,805

The accompanying notes are an integral part of these financial statements.

CAPITAL OUTLAY FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$192,531
-	64,962
-	2,310
1,663	11,144
-	2,590
1,663	273,537
-	8,000
-	64,832
-	2,603
-	131,037
-	2,625
-	8,912
4,763	4,763
4,763	222,772
(3,100)	50,765
10,000	20,000
-	(20,000)
10,000	-
6,900	50,765
45,560	356,450
\$52,460	\$407,215

FRIENDSHIP TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

Reconciliation of statement of revenues, expenditures and changes in fund balances of
governmental funds to statement of activities

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$50,765

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, those costs
are allocated over their useful lives as annual depreciation expense in the statement
of activities.

Add: capital outlay capitalized during the current year	4,763
Subtract: depreciation expense	<u>(5,066)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$50,462</u></u>
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The accompanying notes are an integral part of these financial statements.

**FRIENDSHIP TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
TAX COLLECTION FUND
MARCH 31, 2008**

ASSETS		AGENCY FUND
Cash		<u><u>\$ -</u></u>
LIABILITIES		
Due to other funds		<u>-</u>
TOTAL LIABILITIES		<u>-</u>
NET ASSETS		
Fiduciary Net Assets		<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Friendship Township, Emmet County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity includes those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, Middle Village Park is presented as a component unit.

Discretely Presented Component Unit

Middle Village Park – The Park was created by a joint agreement between Friendship Township and Readmond Township to acquire certain real property located in Readmond Township for the purpose of creating lakeshore recreational facilities. Each township provided a total of \$119,370 for land acquisition that was matched with \$716,219 of State of Michigan funding. The State of Michigan has retained a 75% interest in all minerals in and under such land. The property was deeded to Readmond Township with an off-deed agreement transferring a 50% ownership interest in the real estate to Friendship Township. A five-member committee manages the park. The committee consists of a representative each of Readmond Township, Friendship Township, the Little Traverse Bay Band of Odawa Indians, and two representatives of the Greater Good Hart Association.

The committee is required to adopt an annual operating budget approved by Readmond Township, Friendship Township and the Tribal Council of the Little Traverse Bay Band of Odawa Indians. Under the operating agreement, funding is to be provided by the townships and the Indian band. Friendship Township performs administrative functions for the Park and is the custodian of its assets. Separate financial statements are not issued for Middle Village Park.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Government-Wide Financial Statements (Continued)

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received by the government.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Road Fund - This fund accounts for revenues and expenditures attributable to improvement of various roads located within the Township. Revenue is primarily obtained from property taxes for this purpose.

Recreation Fund - This fund is used to account for expenditures related to providing funding to recreational activities within the Township. Financing is provided primarily by contributions from the General Fund and private individuals.

Capital Outlay Fund - This fund is used to account for expenditures related to providing major capital improvements within the Township. Financing is provided primarily by contributions from the General Fund and private individuals.

Fiduciary Funds

Trust and Agency Fund - The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer. The Township has no investments as of March 31, 2008.

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values. Interfund transfers reflect the use of unrestricted revenues collected in the General Fund used to finance programs accounted for in other funds in accordance with budgetary provisions.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There are no accumulated vacation, sick leave or post-employment benefits to be recognized.

CAPITAL ASSETS

Capital assets include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	15 – 40 years
Furniture and equipment	5 – 20 years
Park improvements	10 – 20 years

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures. The Township has no long-term obligations as of March 31, 2008.

FUND EQUITY

Reserved fund balances for governmental funds indicates that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is then legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Township Board.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(CONTINUED)**

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, The Township's actual expenditures and budgeted expenditures for the government fund is shown on a functional basis. The approved budgets of the Township were adopted to the activity level. The Township incurred expenditures, which exceeded the amount appropriated as follows:

Fund	Appropriations	Expenditures	Variance
Road Fund:			
Public works	\$88,000	\$90,411	\$2,411

NOTE 3: PROPERTY TAX

Property tax revenues for the year ended March 31, 2008, reflected in the accompanying financial statements include property taxes levied December 31, 2007. These taxes are due by February 15, 2008, and are added to the County tax rolls after February 28, 2008. The Township will receive 100% payment for the delinquent tax by June, 2008.

The taxable value of the Township totaled \$98,723,151, on which ad valorem taxes consisted of .9564 mills for the Township's operating purposes and .9564 mills for additional operating purposes to be used for roads, raising \$92,617 for operating purposes and \$92,556 for roads.

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Primary Government

The caption on the statements of net assets relating to cash and cash equivalents of the primary government in the amount of \$377,817 represents deposits in one financial institution located in Michigan in varying amounts.

Custodial Credit Risk -- Deposits: At year-end the carrying amount of the Township's primary government deposits were classified as to risk are as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$200,000	\$200,007
Uninsured -- uncollateralized	177,817	182,311
	<u>\$377,817</u>	<u>\$382,318</u>

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Component Unit

The caption on the statements of net assets relating to cash and cash equivalents of the component unit in the amount of \$5,217 represents deposits in one financial institution located in Michigan in varying amounts.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated level are used as depositories. The Township may experience significant fluctuations in deposit balances through the year.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's investment policy is in accordance with statutory authority.

NOTE 5: INTERFUND BALANCES AND TRANSFERS

Interfund transfers consisted of the following for the year ended March 31, 2008:

Fund	Transfer Out	Transfer In
General Fund	\$20,000	\$ -
Recreation Fund	-	10,000
Capital Outlay Fund	-	10,000
Total	\$20,000	\$20,000

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) use unrestricted resources collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no interfund balances for the year ended March 31, 2008.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 6: CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government activities for the current year is as follows:

	Balance			Balance
	April 1, 2007	Additions	Deletions	March 31, 2008
<u>Not being depreciated:</u>				
Land	\$240,677	\$ -	\$ -	\$240,677
<u>Being depreciated:</u>				
Building and improvements	113,494	1,500	-	114,994
Furniture and equipment	33,710	3,263	(4,451)	32,522
Subtotal	387,881	4,763	(4,451)	388,193
Less accumulated depreciation	(47,391)	(5,066)	4,451	(48,006)
Total	\$340,490	(\$303)	\$ -	\$340,187

Depreciation was charged to the Township's functions as follows:

Unallocated \$5,066

Component Unit

Capital asset activity of the component unit – Middle Village Park government activities for the current year is as follows:

	Balance			Balance
	April 1, 2007	Additions	Deletions	March 31, 2008
<u>Being depreciated:</u>				
Park improvements	\$36,087	\$ -	\$ -	\$36,087
Less accumulated depreciation	(7,217)	(2,406)	-	(9,623)
Total	\$28,870	(\$2,406)	\$ -	\$26,464

Depreciation was charged to the Component Unit's functions as follows:

Unallocated \$2,406

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 7: PENSION PLAN

The Township provides pension benefits through a defined contribution plan covering to all elected and appointed officials, which is administered by the John Hancock Life Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 7.5% of employees' gross earnings. In accordance with these requirements, the Township contributed \$3,471 for the year ended March 31, 2008. Fees and charges were \$339.

NOTE 8: RISK MANAGEMENT

Friendship Township participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan.

The plan has a maximum liability for property of \$261,500, general liability of \$2,000,000, wrongful acts of \$2,000,000, crime of \$10,000, automobile of \$2,000,000, inland marine liability of \$16,253, EDP liability of \$8,060, and bonding for public officials errors and omissions. Additionally, the Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9: COMMITMENTS

The Township is committed under contracts for road improvements in the approximate amount of \$138,500.

NOTE 10: CONTINGENCIES

The Township is contingently liable under an operating agreement with the City of Harbor Springs and another township for a portion of the costs of monitoring and remediation of environmental issues arising from the closure of a solid-waste landfill located in an adjacent township. The township incurred \$588 for its share for the fiscal year ended March 31, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes:				
Property tax	\$88,148	\$88,148	\$92,617	\$4,469
Property taxes - administrative fee	5,375	5,375	6,485	1,110
Penalties and interest	10	10	661	651
Commercial Forest	-	-	212	212
Total taxes	93,533	93,533	99,975	6,442
State shared revenues:				
State shared revenues	57,000	57,000	57,708	708
State shared revenues - METRO Act	-	-	2,378	2,378
Swampland and payment in lieu of tax	4,876	4,876	4,876	-
Total state shared revenues	61,876	61,876	64,962	3,086
Charges for services:				
Cemetery lots and burials	1,100	1,100	2,180	1,080
Land division fees	-	-	50	50
Rentals	-	-	80	80
Total charges for services	1,100	1,100	2,310	1,210
Interest	2,500	2,500	4,362	1,862
Other revenue	1,100	1,100	590	(510)
TOTAL REVENUES	160,109	160,109	172,199	12,090

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
LEGISLATIVE				
Township board	\$7,892	\$8,492	\$8,000	\$492
GENERAL GOVERNMENT				
Supervisor	10,356	10,356	9,566	790
Assessor	16,232	16,232	16,045	187
Elections	1,200	3,000	2,973	27
Professional services	3,000	3,000	575	2,425
Board of Review	1,200	1,200	1,072	128
Clerk	11,316	11,316	10,529	787
Treasurer	14,216	14,216	12,707	1,509
Land division administration	1,596	1,596	1,510	86
Township property	9,200	9,200	5,955	3,245
Cemetery	2,500	3,900	3,900	-
TOTAL GENERAL GOVERNMENT	70,816	74,016	64,832	9,184
PUBLIC SAFETY				
Planning and zoning	12,038	12,038	2,603	9,435
PUBLIC WORKS				
Highways and streets	66,440	62,640	30,037	32,603
Sanitation	14,676	14,676	10,589	4,087
TOTAL PUBLIC WORKS	81,116	77,316	40,626	36,690
RECREATION AND CULTURE				
Library	1,000	1,000	1,000	-
OTHER FUNCTIONS				
Insurance and other benefits	9,100	9,100	8,912	188
Contingency	4,000	4,000	-	4,000
TOTAL OTHER FUNCTIONS	13,100	13,100	8,912	4,188
TOTAL EXPENDITURES	185,962	185,962	125,973	59,989
REVENUES OVER (UNDER) EXPENDITURES	(25,853)	(25,853)	46,226	60,481
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(20,000)	(20,000)	(20,000)	-
NET CHANGE IN FUND BALANCE	(45,853)	(45,853)	26,226	72,079
FUND BALANCE - BEGINNING OF YEAR	133,561	133,561	133,561	-
FUND BALANCE - END OF YEAR	\$87,708	\$87,708	\$159,787	\$72,079

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
ROAD FUND
FOR THE YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Property tax	\$88,148	\$88,148	\$92,556	\$4,408
Interest income	800	800	1,778	978
TOTAL REVENUES	88,948	88,948	94,334	5,386
EXPENDITURES:				
Current:				
Public works	88,000	88,000	90,411	(2,411)
TOTAL EXPENDITURES	88,000	88,000	90,411	(2,411)
NET CHANGE IN FUND BALANCE	948	948	3,923	2,975
FUND BALANCE, BEGINNING OF YEAR	89,240	89,240	89,240	-
FUND BALANCE, END OF YEAR	\$90,188	\$90,188	\$93,163	\$2,975

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
RECREATION FUND
FOR THE YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Interest income	\$2,000	\$2,000	\$3,341	\$1,341
Other - refunds	-	-	2,000	2,000
TOTAL REVENUES	2,000	2,000	5,341	3,341
EXPENDITURES:				
Current:				
Recreation and culture	2,925	2,925	1,625	1,300
TOTAL EXPENDITURES	2,925	2,925	1,625	1,300
REVENUES OVER (UNDER) EXPENDITURES	(925)	(925)	3,716	4,641
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	10,000	10,000	10,000	-
NET CHANGE IN FUND BALANCE	9,075	9,075	13,716	4,641
FUND BALANCE - BEGINNING OF YEAR	88,089	88,089	88,089	-
FUND BALANCE - END OF YEAR	\$97,164	\$97,164	\$101,805	\$4,641

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Interest income	\$1,000	\$1,000	\$1,663	\$663
TOTAL REVENUES	1,000	1,000	1,663	663
EXPENDITURES:				
Capital outlay	7,500	7,500	4,763	2,737
TOTAL EXPENDITURES	7,500	7,500	4,763	2,737
REVENUES OVER (UNDER) EXPENDITURES	(6,500)	(6,500)	(3,100)	3,400
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	10,000	10,000	10,000	-
NET CHANGE IN FUND BALANCE	3,500	3,500	6,900	3,400
FUND BALANCE - BEGINNING OF YEAR	45,560	45,560	45,560	-
FUND BALANCE - END OF YEAR	\$49,060	\$49,060	\$52,460	\$3,400

July 21, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Township Board
Friendship Township
Emmet County, Michigan

I have audited the financial statements of the governmental activities, the discretely presented component unit, and each major fund, of Friendship Township, and have issued my report thereon dated July 21, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated March 28, 2008, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 17, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Friendship Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was determining depreciation expense. I evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated July 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Auditing standards require me to report to you significant audit findings or issues. Following are the significant findings I noted during my audit:

- There is a lack of segregation of duties in the accounting function due to the limited number of accounting personnel. This condition is generally inherent in organizations the size of Friendship Township, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.
- Friendship Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

Additionally I have presented other matters for your consideration in the same letter dated July 21, 2008.

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Board and management of Friendship Township and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard E. Mahlmeister', written over the word 'Sincerely,'.

Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, C.P.A., P.C.

RICHARD E. MAHLMEISTER



CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:

American Institute of Certified Public Accountants

Michigan Association of Certified Public Accountants

July 21, 2008

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL
WEAKNESSES IN INTERNAL CONTROL AND OTHER MATTERS**

Township Board
Friendship Township
Emmet County, Michigan

In planning and performing my audit of the financial statements of ***Friendship Township*** as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered Friendship Township's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Friendship Township's internal control. My consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, I do not express an opinion on the effectiveness of Friendship Township's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies and a deficiency that I consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

I consider the following deficiencies to be significant deficiencies in internal control:

Lack of Segregation of Duties

Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

This condition is generally inherent in organizations the size of Friendship Township, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

I believe the following deficiency constitutes a material weaknesses:

Financial Statement Preparation

Friendship Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures.

However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

In addition, I noted other matters for your consideration:

Budgeting

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2008 Friendship Township incurred expenditures which exceeded the amount appropriated for public works in the Road Fund, as shown in the body of the financial statements.

I suggest that the Board on a periodic basis, review appropriations as compared to actual expenditures and amend the budget as necessary, prior to incurring the expenditures to avoid incurring expenditures in excess of appropriations.

Friendship Township

July 21, 2008

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This communication is intended solely for the information and use of management and the Members of the Board of ***Friendship Township***, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to serve ***Friendship Township***. Best wishes in the next year.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard E. Mahlmeister". The signature is fluid and cursive, with a large initial "R" and "M".

Richard E. Mahlmeister, C.P.A.

Richard E. Mahlmeister, C.P.A., P.C.